

LENOX COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Lenox Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2006 election)</b>		
Beverly Kinker	President	2008
Chris Christensen	Vice President	2007
Brent Wise	Board Member	2006
Paul Maynes	Board Member	2007
Todd Barker	Board Member	2008
<b>Board of Education (After September 2006 election)</b>		
Beverly Kinker	President	2008
Brent Wise	Vice President	2009
Chris Christensen	Board Member	2007
Paul Maynes	Board Member	2007
Todd Barker	Board Member	2008
<b>School Officials</b>		
David Henrichs	Superintendent	2007
Paula Horton	District Secretary/ District Treasurer	2007
Richard Wilson	Attorney	2007

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Lenox Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lenox Community School District, Lenox, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lenox Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2008 on our consideration of the Lenox Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of

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inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lenox Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Nolte, Cornman & Johnson*  
NOLTE, CORNMAN & JOHNSON, P.C.

March 14, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Lenox Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$3,081,073 in fiscal 2006 to \$3,393,069 in fiscal 2007, while General Fund expenditures increased from \$3,228,076 in fiscal 2006 to \$3,259,318 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$345,724 in fiscal 2006 to \$490,601 in fiscal 2007, a 41.9% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state and federal grant revenue in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- An increase in interest rates during the past fiscal year, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$20,105 in fiscal year 2006 to \$25,709 in fiscal year 2007.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Lenox Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Lenox Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Lenox Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Lenox Community School District Annual Financial Report**

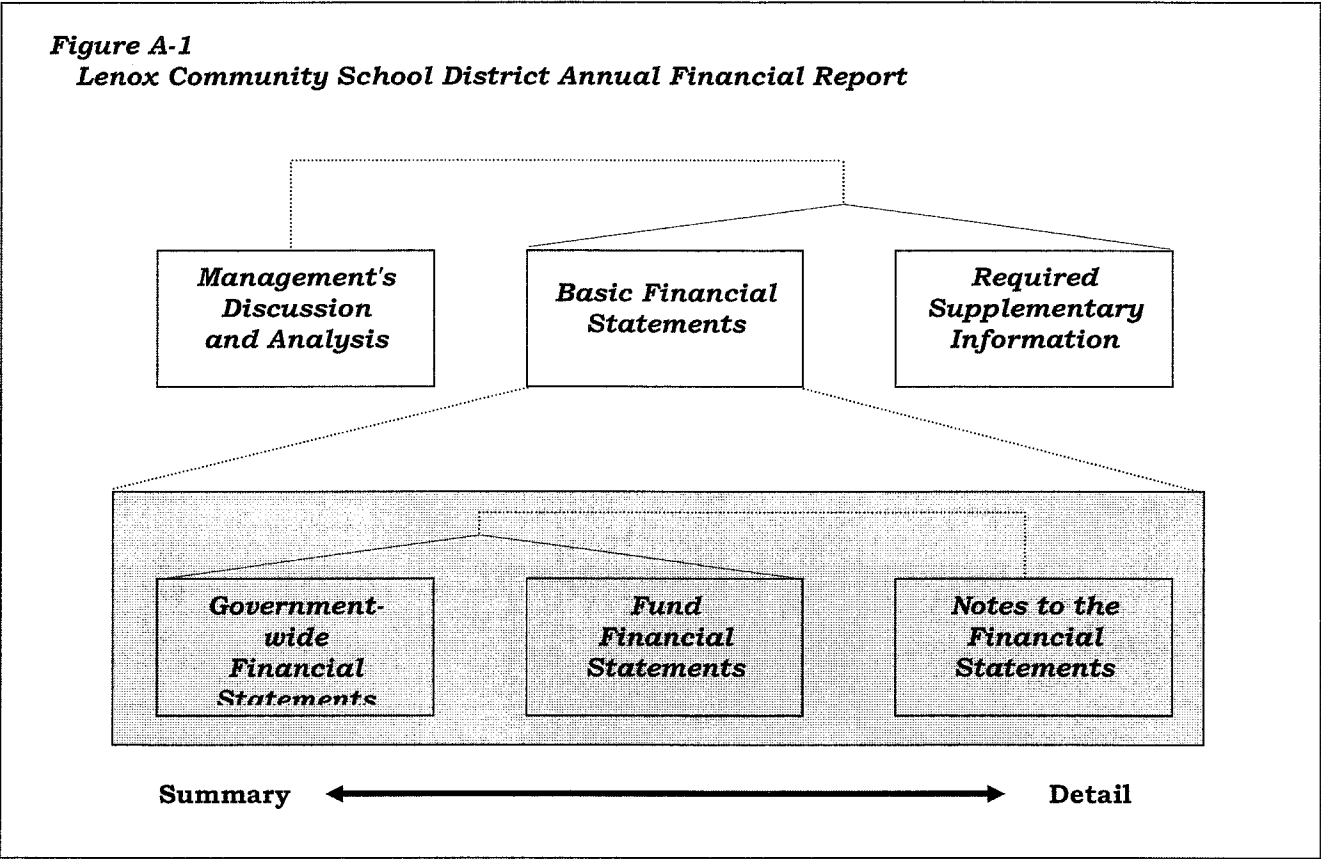


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**

***Major Features of the Government-Wide and Fund Financial Statements***

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.



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The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Agency fund.

- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 2,808,667	2,862,500	28,294	23,114	2,836,961	2,885,614	-1.69%
Capital assets	4,803,019	4,839,630	17,913	18,767	4,820,932	4,858,397	-0.77%
Total assets	7,611,686	7,702,130	46,207	41,881	7,657,893	7,744,011	-1.11%
Long-term obligations	3,897,693	4,117,854	0	0	3,897,693	4,117,854	-5.35%
Other liabilities	1,736,389	1,860,209	8,270	9,319	1,744,659	1,869,528	-6.68%
Total liabilities	5,634,082	5,978,063	8,270	9,319	5,642,352	5,987,382	-5.76%
Net assets:							
Invested in capital assets, net of related debt	933,019	1,117,246	17,913	18,767	950,932	1,136,013	-16.29%
Restricted	464,853	134,043	0	0	464,853	134,043	246.79%
Unrestricted	579,732	472,778	20,024	13,795	599,756	486,573	23.26%
Total net assets	\$ 1,977,604	1,724,067	37,937	32,562	2,015,541	1,756,629	14.74%

The District's combined net assets increased by 14.74%, or \$258,912, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$330,810, or 246.79% over the prior year. The increase was primarily the result of the reclassifying the Special Revenue, Physical Plant and Equipment Levy, Capital Projects and Debt Service fund balance from the invested in capital assets, net of related debt to restricted net assets.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other

legal requirements – increased \$113,183, or 23.26%. This decrease in unrestricted net assets was primarily a result of the decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 355,660	388,090	69,385	70,955	425,045	459,045	-7.41%
Operating grants and contributions and restricted interest	592,754	465,240	92,960	94,508	685,714	559,748	22.50%
Capital grants and contributions and restricted interest	0	35,803	0	0	0	35,803	-100.00%
General revenues:							
Property tax	1,547,952	1,354,333	0	0	1,547,952	1,354,333	14.30%
Local option sales and services tax	128,162	160,142	0	0	128,162	160,142	-19.97%
Unrestricted state grants	1,404,371	1,216,030	0	0	1,404,371	1,216,030	15.49%
Other	61,068	61,468	155	82	61,223	61,550	-0.53%
Total revenues	4,089,967	3,681,106	162,500	165,545	4,252,467	3,846,651	10.55%
Program expenses:							
Governmental activities:							
Instructional	2,458,963	2,478,983	0	0	2,458,963	2,478,983	-0.81%
Support services	863,592	826,369	10,278	9,956	873,870	836,325	4.49%
Non-instructional programs	0	0	146,847	154,736	146,847	154,736	-5.10%
Other expenses	513,875	327,373	0	0	513,875	327,373	56.97%
Total expenses	3,836,430	3,632,725	157,125	164,692	3,993,555	3,797,417	5.17%
Changes in net assets	253,537	48,381	5,375	853	258,912	49,234	425.88%
Beginning net assets	1,724,067	1,675,686	32,562	31,709	1,756,629	1,707,395	2.88%
Ending net assets	\$ 1,977,604	1,724,067	37,937	32,562	2,015,541	1,756,629	14.74%

In fiscal 2007, property tax, local option sales and services tax and unrestricted state grants account for 75.3% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.9% of the revenue from business-type activities.

The District's total revenues were \$4,252,467 of which \$4,089,967 was for governmental activities and \$162,500 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 10.55% increase in revenues and a 5.17% increase in expenses. Increases in local tax and state revenues helped to fund increases in expenditures. The increases in expenses were related to increases in negotiated salary and benefits.

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## Governmental Activities

Revenues for governmental activities were \$4,089,967 and expenses were \$3,836,430.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 2,458,963	2,478,983	-0.81%	1,625,164	1,732,095	-6.17%
Support services	863,592	826,369	4.50%	861,346	825,572	4.33%
Other expenses	513,875	327,373	56.97%	401,506	185,925	115.95%
Totals	\$ 3,836,430	3,632,725	5.61%	2,888,016	2,743,592	5.26%

- The cost financed by users of the District's programs was \$355,660.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$592,754.
- The net cost of governmental activities was financed with \$1,547,952 in property tax, \$128,162 in local option sales and services tax, \$1,404,371 in unrestricted state grants, \$40,740 in interest income and \$20,328 in other general revenues.

## Business-Type Activities

Revenues of the District's business-type activities were \$162,500 and expenses were \$157,125. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Lenox Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$924,506, above last year's ending fund balances of \$869,194. However, the primary reason for the increase in combined fund balances in fiscal 2007 is due to the increase in the General fund balance.

## Governmental Fund Highlights

The District's improving General Fund financial position from \$345,724 to \$490,601 is the product of many factors:

- Increases in state and federal grants during the year resulted in an increase in revenues.
- The increase in negotiated salary and benefits, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.

## Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$32,562 at June 30, 2006 to \$37,937 at June 30, 2007, representing an increase of 16.5%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$237,675 less than budgeted revenues, a variance of 5.3%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services and other expenditures areas.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$4.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$141,203.

The original cost of the District's capital assets was \$6.13 million. Governmental funds account for \$6.08 million with the remainder of \$0.05 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The Lenox Elementary project was completed during the years and is shown as an addition in the building category and a deletion to the construction in progress category.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 50,521	50,521	0	0	50,521	50,521	0.00%
Construction in progress	0	4,496,324	0	0	0	4,496,324	-100.00%
Buildings	4,652,300	232,900	0	0	4,652,300	232,900	1897.55%
Machinery and equipment	100,198	59,885	17,913	18,767	118,111	78,652	50.17%
Total	\$ 4,803,019	4,839,630	17,913	18,767	4,820,932	4,858,397	-0.77%

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## Long-Term Debt

At June 30, 2007, the District had \$3,897,693 in general obligation and other long-term debt outstanding. This represents a decrease of 5.35% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$3,390,000 at June 30, 2007.

The District had total outstanding Capital Loan Notes payable from the Special Revenue, Physical Plant and Equipment Levy Fund of \$480,000 at June 30, 2007.

The District had compensated absences payable from the General Fund of \$27,693 at June 30, 2007.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General Obligation Bonds	\$ 3,390,000	3,540,000	-4.24%
Capital Loan Notes	480,000	550,000	-12.73%
Compensated absences	27,693	0	100.00%
Early Retirement	0	27,854	-100.00%
Totals	<u>\$ 3,897,693</u>	<u>4,117,854</u>	<u>-5.35%</u>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Paula Horton, District Secretary, Lenox Community School District, 600 South Locust, Lenox, Iowa, 50851.

## BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 1,005,770	22,085	1,027,855
Receivables:			
Property tax:			
Delinquent	25,688	0	25,688
Succeeding year	1,376,943	0	1,376,943
Income surtax	159,351	0	159,351
Interfund	1,313	(1,313)	0
Accounts	77,269	131	77,400
Due from other governments	162,333	0	162,333
Inventories	0	7,391	7,391
Capital assets, net of accumulated depreciation (Note 5)	4,803,019	17,913	4,820,932
<b>Total Assets</b>	<b>7,611,686</b>	<b>46,207</b>	<b>7,657,893</b>
<b>Liabilities</b>			
Accounts payable	41,797	7,869	49,666
Salaries and benefits payable	301,070	0	301,070
Interest payable	11,579	0	11,579
Deferred revenue:			
Succeeding year property tax	1,376,943	0	1,376,943
Other	5,000	0	5,000
Unearned revenue	0	401	401
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	155,000	0	155,000
Capital loan notes payable	70,000	0	70,000
Compensated absences payable	27,693	0	27,693
Portion due after one year:			
General obligation bonds payable	3,235,000	0	3,235,000
Capital loan notes payable	410,000	0	410,000
<b>Total Liabilities</b>	<b>5,634,082</b>	<b>8,270</b>	<b>5,642,352</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	933,019	17,913	950,932
Restricted for:			
Beginning teacher mentoring	498	0	498
Additional teacher contract day	517	0	517
Market factor	1,812	0	1,812
Management levy	83,489	0	83,489
Physical plant and equipment levy	214,186	0	214,186
Capital projects	109,446	0	109,446
Debt service	6,059	0	6,059
Other special revenue purposes	48,846	0	48,846
Unrestricted	579,732	20,024	599,756
<b>Total Net Assets</b>	<b>\$ 1,977,604</b>	<b>37,937</b>	<b>2,015,541</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					
Governmental activities:					
Instruction:					
Regular instruction	\$ 1,359,198	211,063	458,020	(690,115)	0
Special instruction	512,822	54,113	19,560	(439,149)	0
Other instruction	586,943	88,238	2,805	(495,900)	0
	2,458,963	353,414	480,385	(1,625,164)	0
Support services:					
Student services	19,286	0	0	(19,286)	0
Instructional staff services	74,883	0	0	(74,883)	0
Administration services	372,026	0	0	(372,026)	0
Operation and maintenance of plant services	279,666	0	0	(279,666)	0
Transportation services	117,731	2,246	0	(115,485)	0
	863,592	2,246	0	(861,346)	0
Other expenditures:					
Facilities acquisitions	148,003	0	0	(148,003)	0
Long-term debt interest and fiscal charges	148,515	0	0	(148,515)	0
AEA flowthrough	112,369	0	112,369	0	0
Depreciation(unallocated)*	104,988	0	0	(104,988)	0
	513,875	0	112,369	(401,506)	0
Total governmental activities	3,836,430	355,660	592,754	(2,888,016)	0
Business-Type activities:					
Support services:					
Administration services	9,689	9,689	0	0	0
Operation and maintenance of plant services	589	589	0	0	0
	10,278	10,278	0	0	0
Non-instructional programs:					
Nutrition services	146,847	59,107	92,960	0	5,220
Total business-type activities	157,125	69,385	92,960	0	5,220
Total	\$ 3,993,555	425,045	685,714	(2,888,016)	5,220
General Revenues:					
Property tax levied for:					
General purposes			\$ 1,219,757	0	1,219,757
Capital outlay			147,250	0	147,250
Debt service			180,945	0	180,945
Local option sales and services tax			128,162	0	128,162
Unrestricted state grants			1,404,371	0	1,404,371
Unrestricted investment earnings			40,740	155	40,895
Other general revenues			20,328	0	20,328
Total general revenues			3,141,553	155	3,141,708
Changes in net assets			253,537	5,375	258,912
Net assets beginning of year			1,724,067	32,562	1,756,629
Net assets end of year			\$ 1,977,604	37,937	2,015,541

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments	\$ 669,650	190,525	145,595	1,005,770
Receivables:				
Property tax:				
Delinquent	19,522	1,990	4,176	25,688
Succeeding year	1,031,656	81,024	264,263	1,376,943
Income surtax	131,230	28,121	0	159,351
Interfund	1,313	0	0	1,313
Accounts	706	0	76,563	77,269
Due from other governments	140,827	0	21,506	162,333
<b>Total Assets</b>	<b>\$ 1,994,904</b>	<b>301,660</b>	<b>512,103</b>	<b>2,808,667</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 35,347	6,450	0	41,797
Salaries and benefits payable	301,070	0	0	301,070
Deferred revenue:				
Succeeding year property tax	1,031,656	81,024	264,263	1,376,943
Income surtax	131,230	28,121	0	159,351
Other	5,000	0	0	5,000
Total liabilities	1,504,303	115,595	264,263	1,879,161
Fund balances:				
Reserved for:				
Debt service	0	0	6,059	6,059
Beginning teacher mentoring	498	0	0	498
Additional teacher contract day	517	0	0	517
Market factor	1,812	0	0	1,812
Unreserved	487,774	186,065	241,781	915,620
Total fund balances	490,601	186,065	247,840	924,506
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,994,904</b>	<b>301,660</b>	<b>512,103</b>	<b>2,803,667</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2007

<b>Total fund balances of governmental funds (page 15)</b>	\$ 924,506
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	4,803,019
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	159,351
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(11,579)
Long-term liabilities, including general obligation bonds payable, capital loan notes payable and compensated absences payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(3,897,693)
<b>Net assets of governmental activites (page 13)</b>	<u><u>\$ 1,977,604</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,175,823	137,313	349,101	1,662,237
Tuition	232,997	0	0	232,997
Other	66,714	14,399	100,549	181,662
State sources	1,714,397	72	76,713	1,791,182
Federal sources	203,138	0	0	203,138
Total revenues	3,393,069	151,784	526,363	4,071,216
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	1,303,509	0	47,476	1,350,985
Special instruction	512,822	0	0	512,822
Other instruction	504,927	0	80,803	585,730
	2,321,258	0	128,279	2,449,537
Support services:				
Student services	19,286	0	0	19,286
Instructional staff services	91,206	0	0	91,206
Administration services	368,070	0	3,956	372,026
Operation and maintenance of plant services	261,053	0	18,613	279,666
Transportation services	86,076	58,199	13,285	157,560
	825,691	58,199	35,854	919,744
Other expenditures:				
Facilities acquisitions	0	148,003	28,064	176,067
Long-term debt:				
Principal	0	0	220,000	220,000
Interest and fiscal charges	0	0	149,313	149,313
AEA flowthrough	112,369	0	0	112,369
	112,369	148,003	397,377	657,749
Total expenditures	3,259,318	206,202	561,510	4,027,030
Excess(deficiency) of revenues over(under) expenditures	133,751	(54,418)	(35,147)	44,186
<b>OTHER FINANCING SOURCES(USES):</b>				
Transfer in	0	0	217,487	217,487
Transfer out	0	(27,969)	(189,518)	(217,487)
Sale of equipment	11,126	0	0	11,126
	11,126	(27,969)	27,969	11,126
Net change in fund balances	144,877	(82,387)	(7,178)	55,312
Fund balance beginning of year	345,724	268,452	255,018	869,194
Fund balance end of year	\$ 490,601	186,065	247,840	924,506

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ 55,312

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceed depreciation expense in the current year, as follows:

Capital outlay expenditures	\$ 109,990	
Depreciation expense	(140,349)	
Loss on disposal of capital assets	<u>(6,252)</u>	(36,611)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 13,877

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 220,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	27,854	
Compensated absences	<u>(27,693)</u>	161

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 798

Changes in net assets of governmental activities (page 14) \$ 253,537

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
<b>Assets</b>	
Cash and pooled investments	\$ 22,085
Accounts receivable	131
Inventories	7,391
Capital assets, net of accumulated depreciation (Note 5)	17,913
<b>Total Assets</b>	<u>47,520</u>
<b>Liabilities</b>	
Interfund payable	1,313
Accounts payable	7,869
Unearned revenue	401
<b>Total Liabilities</b>	<u>9,583</u>
<b>Net Assets</b>	
Invested in capital assets	17,913
Unrestricted	20,024
<b>Total Net Assets</b>	<u>\$ 37,937</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 69,385
TOTAL OPERATING REVENUES	<u>69,385</u>
OPERATING EXPENSES:	
Support services:	
Administration services:	
Salaries	9,689
Operation and maintenance of plant services:	
Services	589
	<u>10,278</u>
Non-instructional programs:	
Food service operations:	
Salaries	58,473
Benefits	10,915
Services	310
Supplies	76,295
Depreciation	854
	<u>146,847</u>
TOTAL OPERATING EXPENSES	<u>157,125</u>
OPERATING LOSS	<u>(87,740)</u>
NON-OPERATING REVENUES:	
State sources	2,344
Federal sources	90,616
Interest income	155
TOTAL NON-OPERATING REVENUES	<u>93,115</u>
Change in net assets	5,375
Net assets beginning of year	<u>32,562</u>
Net assets end of year	<u>\$ 37,937</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 68,501
Cash received from miscellaneous sources	614
Cash payments to employees for services	(86,486)
Cash payments to suppliers for goods or services	<u>(59,553)</u>
Net cash used in operating activities	<u>(76,924)</u>
Cash flows from non-capital financing activities:	
State grants received	2,344
Federal grants received	<u>78,971</u>
Net cash provided by non-capital financing activities	<u>81,315</u>
Cash flows from investing financing activities:	
Interest on investments	<u>155</u>
Net increase in cash and cash equivalents	4,546
Cash and cash equivalents at beginning of year	<u>17,539</u>
Cash and cash equivalents at end of year	<u><u>\$ 22,085</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (87,740)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	11,645
Depreciation	854
Increase in inventories	(1,816)
Increase in accounts receivable	(131)
Increase in accounts payable	7,812
Decrease in salaries and benefits payable	(7,409)
Decrease in unearned revenue	<u>(139)</u>
Net cash used in operating activities	<u><u>\$ (76,924)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 22,085</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$11,645.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
JUNE 30, 2007

	<u>Agency</u>
<b>Assets</b>	
Cash and pooled investments	\$ 2,120
<b>Total Assets</b>	<u>\$ 2,120</u>
<b>Liabilities</b>	
Due to other groups	\$ 2,120
<b>Total Liabilities</b>	<u>\$ 2,120</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007

**(1) Summary of Significant Accounting Policies**

The Lenox Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Lenox, Iowa, and the predominate agricultural territory in Adams, Ringgold, Taylor and Union Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Lenox Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Lenox Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Adams, Ringgold, Taylor and Union Counties Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is utilized to account for major equipment purchases and capital improvements.

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for the current school year, which is paid in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax

receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the support services and other expenditures functions exceeded the amounts budgeted.

### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment

companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	<u>\$ 726,802</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

**(3) Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
General	Enterprise, School Nutrition	<u>\$ 1,313</u>

**(4) Transfers**

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue, Physical Plant and Equipment Levy	\$ 285
Capital Projects	Special Revenue, Physical Plant and Equipment Levy	27,684
Debt Service	Capital Projects	<u>189,518</u>
Total		<u>\$ 217,487</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.



(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 50,521	0	0	50,521
Construction in progress	4,496,324	28,064	4,524,388	0
Total capital assets not being depreciated	4,546,845	28,064	4,524,388	50,521
Capital assets being depreciated:				
Buildings	819,578	4,524,388	0	5,343,966
Machinery and equipment	654,497	81,926	46,320	690,103
Total capital assets being depreciated	1,474,075	4,606,314	46,320	6,034,069
Less accumulated depreciation for:				
Buildings	586,678	104,988	0	691,666
Machinery and equipment	594,612	35,361	40,068	589,905
Total accumulated depreciation	1,181,290	140,349	40,068	1,281,571
Total capital assets being depreciated, net	292,785	4,465,965	6,252	4,752,498
Governmental activities capital assets, net	\$ 4,839,630	4,494,029	4,530,640	4,803,019

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 58,309	0	7,257	51,052
Less accumulated depreciation	39,542	854	7,257	33,139
Business-type activities capital assets, net	\$ 18,767	(854)	0	17,913

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 11,826
Other	1,213
Support services:	
Instructional support	3,952
Transportation	18,370
	35,361
Unallocated depreciation	104,988
Total governmental activities depreciation expense	\$ 140,349
Business-type activities:	
Food services	\$ 854
Total business-type activities depreciation expense	\$ 854

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 3,540,000	0	150,000	3,390,000	155,000
Capital Loan Notes	550,000	0	70,000	480,000	70,000
Compensated Absences	0	27,693	0	27,693	27,693
Early Retirement	27,854	0	27,854	0	0
Total	\$ 4,117,854	27,693	247,854	3,897,693	252,693

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of July 1, 2003		
		Principal	Interest	Total
2008	4.00 % \$	155,000	142,495	297,495
2009	4.00	160,000	136,295	296,295
2010	4.00	170,000	129,895	299,895
2011	4.00	175,000	123,095	298,095
2012	3.75	180,000	116,095	296,095
2013	3.80	190,000	109,345	299,345
2014	3.90	195,000	102,125	297,125
2015	4.00	200,000	94,520	294,520
2016	4.10	210,000	86,520	296,520
2017	4.20	220,000	77,910	297,910
2018	4.30	230,000	68,670	298,670
2019	4.40	240,000	58,780	298,780
2020	4.45	250,000	48,220	298,220
2021	4.50	260,000	37,095	297,095
2022	4.55	270,000	25,395	295,395
2023	4.60	285,000	13,110	298,110
Total		\$ 3,390,000	1,369,565	4,759,565

Capital Loan Notes Payable

Details of the District's June 30, 2007 capital loan notes indebtedness are as follows:

Year Ending June 30,	Note Issue of June 30, 2005				
	Interest Rates	Principal	Interest	Total	
2008	3.05 %	\$ 70,000	16,278	86,278	
2009	3.20	75,000	14,143	89,143	
2010	3.35	80,000	11,742	91,742	
2011	3.45	80,000	9,062	89,062	
2012	3.55	85,000	6,302	91,302	
2013	3.65	90,000	3,285	93,285	
Total		\$ 480,000	60,812	540,812	

#### Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. Early retirement benefits paid during the year ended June 30, 2007, totaled \$27,854. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund the early retirement incentives.

#### **(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$124,988, \$120,949 and \$114,115 respectively, equal to the required contributions for each year.

#### **(8) Risk Management**

Lenox Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$112,369 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the support services and other expenditures functions exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

LENOX COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary		Budgeted Amounts		Final to
Fund Types	Fund Type	Total		Original	Final	Actual
Actual	Actual	Actual				Variance
Revenues:						
Local sources	\$ 2,076,896	69,540	2,146,436	2,108,549	2,108,549	37,887
State sources	1,791,182	2,344	1,793,526	1,796,842	1,796,842	(3,316)
Federal sources	203,138	90,616	293,754	566,000	566,000	(272,246)
Total revenues	4,071,216	162,500	4,233,716	4,471,391	4,471,391	(237,675)
Expenditures:						
Instruction	2,449,537	0	2,449,537	3,520,000	3,520,000	1,070,463
Support services	919,744	10,278	930,022	917,500	917,500	(12,522)
Non-instructional programs	0	146,847	146,847	195,000	195,000	48,153
Other expenditures	657,749	0	657,749	508,795	508,795	(148,954)
Total expenditures	4,027,030	157,125	4,184,155	5,141,295	5,141,295	957,140
Excess(deficiency) of revenues over(under) expenditures	44,186	5,375	49,561	(669,904)	(669,904)	719,465
Other financing sources, net	11,126	0	11,126	5,000	5,000	6,126
Excess(deficiency) of revenues and other financing sources over(under) expenditures	55,312	5,375	60,687	(664,904)	(664,904)	725,591
Balance beginning of year	869,194	32,562	901,756	672,542	672,542	229,214
Balance end of year	\$ 924,506	37,937	962,443	7,638	7,638	954,805

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LENOX COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the support services and other expenditures function exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION



LENOX COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2007

	Special Revenue Funds					Total
	Manage-	Student	Total	Capital	Debt	Other
	ment	Activity	Special	Projects	Service	Nonmajor
	Levy		Funds			Governmental
						Funds
<b>Assets</b>						
Cash and pooled investments	\$ 82,733	48,846	131,579	11,377	2,639	145,595
Receivables:						
Property tax:						
Current year delinquent		756	756	0	3,420	4,176
Succeeding year	80,000	0	80,000	0	184,263	264,263
Accounts	0	0	0	76,563	0	76,563
Due from other governments	0	0	0	21,506	0	21,506
<b>Total Assets</b>	<b>\$ 163,489</b>	<b>48,846</b>	<b>212,335</b>	<b>109,446</b>	<b>190,322</b>	<b>512,103</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 80,000	0	80,000	0	184,263	264,263
Fund balances:						
Reserved for Debt Service	0	0	0	0	6,059	6,059
Unreserved	83,489	48,846	132,335	109,446	0	241,781
Total fund balances	83,489	48,846	132,335	109,446	6,059	247,840
<b>Total Liabilities and Fund Balances</b>	<b>\$ 163,489</b>	<b>48,846</b>	<b>212,335</b>	<b>109,446</b>	<b>190,322</b>	<b>512,103</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LENOX COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Total Special Revenue Funds	Capital Projects	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 39,994	0	39,994	128,162	180,945	349,101
Other	6,038	88,748	94,786	5,476	287	100,549
State sources	27	0	27	76,563	123	76,713
TOTAL REVENUES	46,059	88,748	134,807	210,201	181,355	526,363
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	47,476	0	47,476	0	0	47,476
Other instruction	0	80,803	80,803	0	0	80,803
Support services:						
Administration services	3,956	0	3,956	0	0	3,956
Operation and maintenance of plant services	18,613	0	18,613	0	0	18,613
Student transportation	13,285	0	13,285	0	0	13,285
Other expenditures:						
Facilities acquisitions	0	0	0	28,064	0	28,064
Long-term debt:						
Principal	0	0	0	0	220,000	220,000
Interest and fiscal charges	0	0	0	0	149,313	149,313
TOTAL EXPENDITURES	83,330	80,803	164,133	28,064	369,313	561,510
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(37,271)	7,945	(29,326)	182,137	(187,958)	(35,147)
OTHER FINANCING SOURCES(USES):						
Transfer in	0	0	0	27,684	189,803	217,487
Transfer out	0	0	0	(189,518)	0	(189,518)
TOTAL OTHER FINANCING SOURCES(USES)	0	0	0	(161,834)	189,803	27,969
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	(37,271)	7,945	(29,326)	20,303	1,845	(7,178)
FUND BALANCE BEGINNING OF YEAR	120,760	40,901	161,661	89,143	4,214	255,018
FUND BALANCE END OF YEAR	\$ 83,489	48,846	132,335	109,446	6,059	247,840

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LENOX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<b>Athletics</b>				
General athletics	\$ 500	5,142	5,231	411
Football	5,113	6,877	11,905	85
Volleyball	555	1,967	1,875	647
Boys Basketball	3,754	3,572	3,366	3,960
Girls Basketball	5,761	3,312	6,943	2,130
Wrestling	681	1,326	7	2,000
Girls Track	240	0	240	0
Boys Track	2,976	0	2,046	930
Golf	900	0	801	99
HS Baseball	500	3,432	3,781	151
JH Baseball	599	201	747	53
HS Softball	924	3,222	2,642	1,504
JH Softball	614	201	364	451
Weight Room	327	0	0	327
Bowling	1,377	0	1,377	0
	<u>24,821</u>	<u>29,252</u>	<u>41,325</u>	<u>12,748</u>
<b>Band/Vocal</b>				
HS Music	3,035	3,940	2,610	4,365
Uniform Fees	1,732	527	471	1,788
Music Supplies	(7,584)	10,102	2,518	0
	<u>(2,817)</u>	<u>14,569</u>	<u>5,599</u>	<u>6,153</u>
<b>Clubs/Organizations:</b>				
Art Club	42	0	0	42
Peer Helpers	74	0	0	74
Football Cheerleaders	1,167	2,126	1,864	1,429
Basketball Cheerleaders	550	127	37	640
Wrestling Cheerleaders	81	127	16	192
Student Council	670	1,372	1,920	122
National Honor Society	189	0	(36)	225
Annual Staff	14,624	5,678	6,338	13,964
Drama Club	(5,602)	6,716	1,114	0
Explorer's	31	0	0	31
Foreign Language	81	0	0	81
	<u>11,907</u>	<u>16,146</u>	<u>11,253</u>	<u>16,800</u>

LENOX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance End of Year	Revenues	Expendi- tures	Balance End of Year
Class Accounts:				
Class of 2006	1,164	0	0	1,164
Class of 2007	6,770	7,457	9,966	4,261
Class of 2008	246	17,493	12,651	5,088
Class of 2009	16	107	8	115
Class of 2010	16	70	13	73
Class of 2011	2	38	28	12
Class of 2012	0	26	26	0
	<u>8,214</u>	<u>25,191</u>	<u>22,692</u>	<u>10,713</u>
Elementary Activities:				
Memory Book	1,140	790	1,264	666
Student Council	1,460	1,824	2,737	547
Activities	128	0	9	119
Music	81	134	0	215
	<u>2,809</u>	<u>2,748</u>	<u>4,010</u>	<u>1,547</u>
Miscellaneous:				
Student Pop	553	174	0	727
Misc school-wide	0	158	0	158
Interest	0	483	483	0
JH Stand	0	27	27	0
Accruals	(4,586)	0	(4,586)	0
	<u>(4,033)</u>	<u>842</u>	<u>(4,076)</u>	<u>885</u>
Total	<u>\$ 40,901</u>	<u>88,748</u>	<u>80,803</u>	<u>48,846</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LENOX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash and pooled investments	\$ 1,233	33,003	32,116	2,120
<b>Liabilities</b>				
Due to other groups	\$ 1,233	33,003	32,116	2,120

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LENOX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	1,662,237	1,511,553	1,366,507	1,294,775
Tuition		232,997	266,652	281,335	263,624
Other		181,662	179,838	174,022	124,466
State sources		1,791,182	1,480,172	1,578,991	1,580,030
Federal sources		203,138	234,946	349,950	250,371
Total	\$	4,071,216	3,673,161	3,750,805	3,513,266
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	1,350,985	1,391,226	1,366,276	1,251,328
Special instruction		512,822	518,138	783,153	661,963
Other instruction		585,730	563,521	265,014	303,544
Support services:					
Student services		19,286	15,072	19,190	17,791
Instructional staff services		91,206	92,947	45,215	39,274
Administration services		372,026	350,216	318,370	316,205
Operation and maintenance of plant services		279,666	253,494	267,729	232,156
Transportation services		157,560	94,760	85,670	81,062
Non-instructional programs:					
Food service operations		0	0	81,063	0
Other expenditures:					
Facilities acquisitions		176,067	277,080	3,358,309	950,189
Long-term debt:					
Principal		220,000	140,000	100,000	145,715
Interest and fiscal charges		149,313	154,835	142,670	137,862
AEA flow-through		112,369	105,645	106,450	109,086
Total	\$	4,027,030	3,956,934	6,939,109	4,246,175

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

### Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Lenox Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lenox Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 14, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lenox Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Lenox Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lenox Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lenox Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Lenox Community School District's financial statements that is more than inconsequential will not be prevented or detected by Lenox Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Lenox Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

#### Compliance and Other Matters

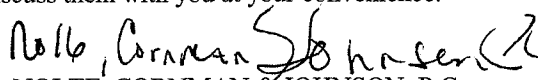
As part of obtaining reasonable assurance about whether Lenox Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Lenox Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Lenox Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lenox Community School District and other parties to whom Lenox Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Lenox Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 14, 2008



LENOX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-07 Purchase Orders - We noted during our audit that Special Revenue, Student Activity Fund disbursements did not have purchase orders.

Recommendation - Better internal control is achieved when pre-numbered purchase orders are used and the sequence is monitored. The District should review and implement the purchase order system. Purchase orders provide approval to order, therefore, pre-numbered purchase orders should be approved by the administrator before the ordering of supplies takes place.

Response - We will remind employees that purchase orders must be filled out and approved before placing orders.

Conclusion - Response accepted.

- I-C-07 Capital Assets - The District currently isn't keeping track of capital asset acquisitions and deletions for the Nutrition Fund. Capital assets are required to be maintained for financial statement presentation.

Recommendation - Capital asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the amount of capital assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The Districts accounting software is capable of keeping a complete list of additions, deletions, and current assets for reporting purposes. The District may want to consider sending their accounting staff to training to be able to utilize this aspect of the accounting software.

Response - We will explore training opportunities for account staff to better utilize software in terms of asset reporting purposes. We will also review current district

procedures involving the tracking of capital assets and then modify procedures when appropriate.

Conclusion - Response accepted.

- I-D-07 Student Activity Fund - During our audit issues arose about the properness of certain receipts, expenditures and accounts within the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity Fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8).

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. More specific findings are as follows:

We noted that there were library books purchased from the Elementary Student Council account. These expenditures would be more appropriately handled through the General Fund.

Response - The District will review the propriety of receipts and expenditures that are recorded in the Student Activity Fund and transfer them to the proper fund when appropriate.

Conclusion - Response accepted.

- I-E-07 Timely Deposits - We noted during our audit that the Elementary Student Council is making monthly deposits for their store sales.

Recommendation - All receipts should be deposited when received. The district should review procedures to ensure that the deposits are made timely.

Response - We will remind all employees associated with the Elementary Student Council that all receipts should be deposited when received.

Conclusion - Response accepted.

- I-F-07 Insurance - We noted that the District had started a partially self funded insurance plan during the year. The bank account associated with this insurance plan is not being recorded on the books.

Recommendation - All bank accounts that utilize the Districts federal identification number should be recorded on the books. The District needs to review its procedures to ensure that all bank accounts are being properly reported.

The District also needs to check with the insurance commission to determine if they need an actuarial on the self funded insurance plan.

Response - We will review our procedures to ensure that all bank accounts are being properly reported. We will also contact the insurance commission to determine if we need an actuarial on the partially self-funded insurance plan.

Conclusion - Response accepted.

LENOX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007 exceeded the amount budgeted in the support services and other expenditures functions.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget when necessary in the future.

Conclusion - Response accepted.

II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-07 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Joyce Sweeney, Secretary Spouse owns Sweeney Repair	Repairs (per bid)	\$7,743
Todd Barker, Board Member Part owner of Barker Implement	Supplies and Services	\$100
Paul Maymes, Board Member Part owner of Lenox Tire Center	Services (per bid)	\$944
Paula Horton, Board Secretary Son part owner of Lenox Tire Center	Services (per bid)	\$944

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the spouse of the secretary and son of the board secretary do not appear to represent a conflict of interest.

The transactions with the board members do not appear to represent a conflict of interest in accordance with Chapter 279.7A of the Code of Iowa, since the amount was less than \$2,500.

II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.